

MAKHADO LOCAL MUNICIPALITY



FINAL ANNUAL BUDGET 2012/2013-2014/2015 FINANCIAL YEAR

31 MAY 2012

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MAKHADO MUNICIPALITY BUDGET CONTENT AND FORMAT – SUPPORTING DOCUMENTATION: BUDGET FOR 2012/2013

1.1 Mayor's Report

- Refer to the annexure C

1.2 Resolution

- Refer to the annexure B

1.3 Executive Summary

Consultative process

The process for community consultation was done after the budget has been tabled by the Council and all inputs received from the community were taken into consideration before the finalization of the 2012/2013 Budget.

Alignment with national, provincial and district priorities

- 1.3..1 The National, provincial and district priorities will be gathered during consultative process and be integrated in the IDP of the Makhado Municipality and District Municipality.

Alignment with National and Provincial Government

- 1.3..1 Information-sharing will take place between the municipality and the national and provincial governments, in order to ensure integration.

Proposed Tariff Increases

Proposed tariff increases on other services are as follows:

- | | |
|---------------------------|---|
| ❖ Refuse Removal Services | - 5.9% - Detail as per Annexure 1. |
| ❖ Electricity | - 11.03% - Detail as per Annexure 1. |
| ❖ Water | - 5.9% - Detail as per Annexure 1. |
| ❖ Sewer | - 5.9% - Detail as per Annexure 1. |
| ❖ Sundry Tariffs | - 5.9% - Detail as per Annexure 1. |



Situational Analysis

1.3..1 Demography

The total population of Makhado is estimated at 495 261 and is growing at about 1.4% per annum. It is composed of 54.25% female and about 45.75% male. The local population has a youthful age structure and the immediate significance of this young age structure is that the population will grow rapidly in future and this implies a future high growth rate in the labour force. At present the local economy is not able to provide sufficient employment opportunities to provide in the needs of the economically active population. Furthermore, a youthful population also implies a relatively higher dependency ratio.

There are about 129 665 households in Makhado municipal area with about 225 059 registered voters. According to the submissions of ward committees the number of households has increased from 129 665 to 143 107, this figure reflects an increase of 13 442 households in the municipality. The new figure will be confirmed with the outcome of the 2011. The municipality is made up of 5 formal towns being Makhado, Vleifontein, Waterval, Vuwani and Dzanani with about 279 villages. The main administrative office is situated in Makhado town with three other administrative offices in Dzanani, Vuwani and Waterval.

The municipal wards are 38 and 37 proportional councillors. There are 14 traditional leaders who are ex-officio members of the municipality and 10 councilors who are members of the executive committee and Mayor the chairperson.

1.3..2 Service Backlog as at from 29 february 2012

Population	Households	Water	Sanitation	Refuse	Electricity	Housing
495 261	129 665	38 204	66048	88252	21192	16807

1.3..3 Provision of Free Basic Services

Number of voters	Indigent households	Receiving free basic electricity	Receiving free basic water	Debts owed to municipality
225 059	75 469	19 340	129 224	R 154 013 054



From an economic perspective, the main elements of the population can be summarised as follows:

Population Element	Percentage (%)
Economically active	46
Economically inactive	54
TOTAL	100

The above figures clearly show the high percentage of the population that is economically inactive. This figure can be attributed to the high percentage of the population under the age of 15, which per definition renders them economically inactive. The majority of the population live in the rural areas and nearly 50% of the population is younger than 15 years. The rural area is also the most underdeveloped area.

The largest percentage of the rural black population between the ages of 15 – 65 years comprises women. This can be attributed to the men being involved in migrant labour. The high level of male absenteeism implies that women make day-to-day household decisions.

1.3..4 Issues to be addressed

- ❖ The population growth rates tend to be much higher than the economic growth rate, which implies that the economy is not able to provide sufficient employment opportunities to absorb new entrants to the labour market.
- ❖ There is no accurate information on the past and current incidence of HIV/AIDS, but it can be assumed that it has increased significantly over the past 2 – 3 years, particularly so in the rural areas.
- ❖ Local communities do not have sufficient information on life threatening diseases, particularly HIV/AIDS.
- ❖ High child mortality levels are prevalent in the rural areas.
- ❖ The presence of immigrants is a growing problem.
- ❖ There is a lack of economic activity and investment in the area that can create employment opportunities.



Service delivery standards, levels of services, outcomes, timetable for achievement and financial implications

1.3..1.1 Challenges in respect of water and sanitation

The municipality has inadequate and fragmented water services provision with different standards and plans. The inadequate water provision implies that less water will be for agricultural, which is one of the pillars of the economy.

- ❖ Most of the pit latrines in the rural areas have not been properly constructed. A number of innovative systems are available on the market.
- ❖ Unauthorised water connection.
- ❖ The water systems are not metered and monitored on continual basis.
- ❖ The overall sanitation system needs improvement.
- ❖ There must be system to drain the full VIP toilets as a way to sustain the sanitation system..

Most rural areas do not have proper sanitation facilities and households have to construct their own pit latrines .About 66% or 66 048 households do not have sanitation at RDP standards.

1.3..1.2 Free Basic Water and Sanitation

The intention of the municipality's Free Basic Water Policy is to ensure that no one is completely denied access to water and sanitation supply because of not being able to pay for the service. The recipients of Free Basic Water are all metered households who are being billed as the universal approach policy is being used. However, for the Free Basic Sanitation, the poor households are targeted and receive an indigent subsidy monthly. An indigent register is kept and updated annually each households receives 50 unit per month.



1.3..2 Electricity Provision

Issues

About 22 000 households are without electricity.

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1.3..2.1 Free Basic Electricity (FBE) and Free Basic Energy

The municipality has a FBE policy that targets poor households. 50 units of electricity are given free to indigent households monthly. An indigent register of the households earning than R1 100 per month and or are unemployed is kept and is updated annually. About 19 340 indigent households in both Eskom and council's licence areas are receiving FBE. A further 1 100 households who are using the Solar systems in areas where there is no electricity grid are receiving a Free Basic Energy subsidy amount. Even though most houses in the rural areas are electrified, some do not have the electricity appliances. Prepaid cards are not accessible to all villages.

1.3..3 Waste Management

The Louis Trichardt town, air force base and surrounding townships have proper waste management systems with sufficient capacity for at least the short to medium term. The waste disposal sites in the rural areas do not have permits and observations indicate that households in the rural areas usually burn their waste. The waste sites also contribute to the contamination of ground water.

The municipality is responsible for the operational maintenance of the waste management system that serves the community. The Provincial Department of Health is responsible for the licensing, operation and maintenance of those waste management systems that treat and dispose of medical waste.

The municipality is removes the waste once per week from the military air force base. The rural areas Kutama and Sinthumule are serviced with a rudimentary system comprising one team of (57) people that collected the waste three times per week. The municipality removes waste everyday in the Makhado town



CBD. Illegal disposal of waste is currently a major challenge, which is also placing a strain on the natural environment.

Levels of rates, service charges and other fees and charges

A detailed schedule of all tariffs and charges for services is accompanying this document and is marked Annexure A

1.4 Annual budget tables

Refer to Final Municipal Annual Budget and MTREF & Supporting Tables attached as annexure C

2 SUPPORTING DOCUMENTATION

2.1 Budget Process Overview.

2.1.1 Schedule of key deadlines relating to budget process (MFMA s21(1)(b))

A budget time-table (Schedule of key deadlines) relating to budget process (MFMA s21 (1) (b)) was compiled and submitted to the Council of Makhado. The Council took notice of it and emphasised the adherence to it.

2.1.2 Stakeholders

Stakeholders who attended the IDP Steering Committee meetings and that were attending Representative Forum meetings were from all over the Municipality.

2.1.3 Process for tabling the budget in council for consultation



The IDP and Budget for 2012/2013 were discussed during community meetings that were held at various places. The IDP and Budget documents were open for perusal. These meetings were published in local newspapers, notice boards of the municipal offices and libraries.

2.1.4 Process for tabling the budget in council for consideration of approval

The final budget was tabled to the Council to consider approval in terms of the MFMA during an ordinary meeting of the Council scheduled for 31 MAY 2012.

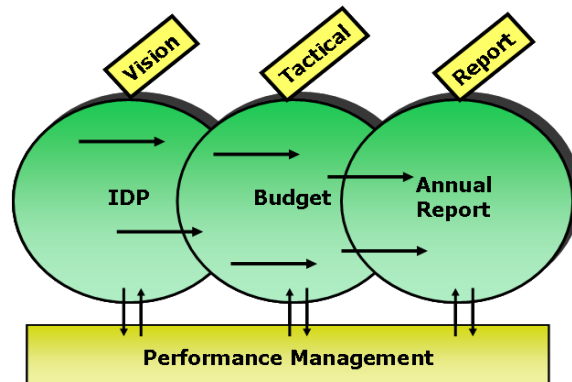
2.1.5 Models used for prioritising resource allocation

The Representative Forum communicated the needs and demands of the community to the meeting. The available funding for capital projects was obtained from the Division of Revenue Act and the Finance Department. Meetings were held by the different departments and the projects as reflected in the IDP were prioritised according to the framework, where possible.

2.1.6 Process to record and integrate inputs from the community in the final budget

The requests / comments that were received from the community were integrated into IDP and Budget document before the final approval by the Council.

2.2 Overview of alignment of budget with Integrated Development



Plan

The above illustration clearly indicates that the IDP informs the budget and that the IDP as well as the budget informs the Annual Report. The vision of the council informs the strategies that will have to be put in place to give effect to the objectives of council and the tactical part, which is the budget, is the document that will indicate the availability of the funds to deliver the projects and simultaneously the service delivery to the community. The ultimate results will be the performance of the Council

2.2.1 Review of the Integrated Development Plan

The current Draft IDP to be adopted by the Council is a product of the newly elected Council and will be applicable for the same term of office as Council.

2.2.1.1 Vision for the municipality

The Representative Forum adopted the following vision as the vision of the Makhado Municipality, after carefully deliberating on it:



2.2.2 Strategic focus areas

Development priorities and objectives are clustered in respect to the following key performance areas:

- ❖ Infrastructure and service – Infrastructure services including water, sanitation, solid waste, electricity, roads and storm water and support services including transport, health, libraries, emergency services, housing, etc. in so far as these are applicable to municipalities.
- ❖ Social and local economic development.
- ❖ Financial viability and management.
- ❖ Democratic governance.
- ❖ Sustainability.
- ❖ Institutional transformation.



The above performance areas are based on the following developmental outcomes:

- ❖ Provision of household infrastructure and service.
- ❖ Creation of liveable, integrated towns and rural areas.
- ❖ Local economic development.
- ❖ Community empowerment and redistribution.

2.2.3 Long-term and short term goals or outcomes for the community

Long term goals and short term goals or outcomes identified can be defined as contributory to the building of a sustainable municipality. These goals need to be implemented within the next 5 years. Detail of these goals can be read in the IDP document available on separate report submitted to Council.

2.2.4 Consultative process undertaken to review the IDP

The members of the Representative Forum of the IDP were held meetings with their respective wards and request were brought for evaluation and incorporation into final document.

2.2.5 Service delivery and funding of housing and health services

2.2.5.1 Environmental Health

Municipal Health Services are defined as all functions falling under Environmental Health Services (excluding port health, malaria and control of hazardous substances). The aforementioned functions have been allocated to the District Municipality.

2.2.5.2 Housing

Housing is a National function. The District and Local Municipalities are the implementing agencies and responsible for the management of rental and hostel units.



2.2.6 Tables showing the link between the IDP and budget

The linkage between the IDP and the Budget will be clearly defined in the Supporting Table SA4- SA6:

- ❖ Supporting table SA4 – Reconciliation of IDP and Budget (Revenue)
- ❖ Supporting table SA5 – Reconciliation of IDP and Budget (Opex)
- ❖ Supporting table SA6 – Reconciliation of IDP and Budget (Capex)

2.3 Measurable performance objectives and indicators

- Refer to annexure 'A' Supporting table SA7.

2.4 Overview of budget related policies

2.4.1 Tariff Policy

The municipality does have a Tariff Policy that was approved and implemented on 1 July 2007.

2.4.2 Credit Control and Debt Collection Policy

The municipality does have a Credit Control and Debt Collection Policy that was approved and implemented on 1 July 2007.

2.4.3 Indigent Policy

The municipality does have an Indigent Policy that was approved and implemented on 1 July 2007.

2.4.4 Investment Policy

The municipality does have an Investment Policy that was approved and implemented on 1 July 2007.

2.4.5 Asset Management Policy

The municipality does have an Asset Management Policy that was approved and implemented on 1 July 2007.



Copies of these policies are available at the Municipal Offices and are attached hereto as Annexure 2 to 7.

2.5 Overview of budget assumptions

The following factors were taken into consideration and assumptions made when compiling the budget for 2012/13, in order to compile a meaningful budget that is easy to understand:

- ❖ External factors utilized during the calculation of the estimated revenue:-
 - population;
 - households;
 - employment;
 - health;
 - development of businesses;
 - new residential areas;
- ❖ The current inflation rate and its impact on the municipal activities;
- ❖ Macro Economic Trends and Growth Rates
- ❖ Interest rates for:
 - borrowing; and
 - investment of funds;
- ❖ Rates, tariffs, charges and timing of revenue collection;
- ❖ Growth or decline in tax base of the municipality;
- ❖ Anticipated price movements on bulk purchases of water and electricity, fuel etc.;
- ❖ Anticipated average salary increases;
- ❖ Demand for the different services;
- ❖ Provision of Free basic services;
- ❖ Grants and subsidies as per Division of Revenue Act;
- ❖ Impact of national, provincial and local policies;
- ❖ Ability of the municipality to spend and deliver the services.

The abovementioned assumptions were developed from the following sources:

- ❖ Information provided by government and Statistics SA;
- ❖ Information gained from reports from the financial system;



- ❖ Local conducted surveys and consumption data in respect of water, electricity, waste, sewerage outflow etc; and
- ❖ The municipality's own analysis of statistical data in respect of actual demand and consumptions in their communities.

2.6 Overview of budget funding

2.6.1 Rates, Tariff and other charges

2.6.1.1 Tariff Schedule

The schedule for tariffs is attached, marked "**Annexure 1**". The Schedule is submitted to Council for adoption and for community consultative process.

2.6.1.2 Investments

Investment particulars will be detailed on supporting table 4-4a :-

- ❖ Supporting table 4 – Investment particulars by type
- ❖ Supporting table 4a – Investment particulars by maturity

2.6.1.3 Grant allocations

Grants and Subsidies will be detailed on supporting table 5-7:-

- ❖ Supporting table 5 – Grants and Subsidy allocation
- ❖ Supporting table 6 – New borrowings
- ❖ Supporting table 7 – Grant allocation

2.6.2 Fiscal Overview

2.6.2.1 Financial Statements

The 2010/11 Financial Statements have been completed and submitted to and audited by the Auditor General.

2.6.2.2 Capital Budget for the 2012/2013 Financial Year

The total capital budget approved by Council for the 2011/2012 financial year amounted to R216,934million and adjustment Capital budget was R138,899million.



2.6.2.3 Trade Creditors.

All trade creditors are paid on time and Council is not in arrears in respect of any amounts owed for bulk purchases or third party payments.

2.6.2.4 Investments

Investments vary on a continuous basis and are mainly short-term in respect of conditional grants and subsidies received for capital projects.

2.6.2.5 Provision of Free Basic Services

The municipality currently provides the following free basic services and indigent support:-

- ❖ Electricity: A subsidy of fifty (50) units of electricity per property per month to all individual households will apply. Where the consumption exceeds fifty (50) units per month the consumer will be charged for actual consumption exceeding fifty (50) units at the approved tariff.



It is proposed that the maximum amount of subsidisation be determined as set out below: -

Household Income per Month	Subsidy Amount
R0 to one state pensioner	100%
One state pensioner to R1 100	80%
R1 101 to two state pensioners	60%

2.6.2.6 Important Financial Indicators

A summary of key financial indicators for the last three years is as follow:-

- ❖ Majority of investments earmarked for specific trust funds or projects in progress and does not form part of the operating account.

2.7 Expenditure on allocations and grants programmes

- Refer to annexure 'A' Table A4.

2.8 Allocations and grants made by the municipality

- ❖ No allocations were made by the Makhado Municipality to:-
 - Other municipalities;
 - Municipal Entities and other external service delivery mechanisms;
 - Any other organs of state; and
 - Any other organisation outside government

2.9 Councillors and board members allowances and employee benefits.

Refer to Annexure 'A' Table SA22.

The above table is a comparison of the total expenditure related to salaries and benefits for the mentioned financial years as per the budget for 2012/2013

The staff salaries budget has been increased by 5% across the board as per inflation rate.

The provision for salaries was calculated according to all staff on the payroll as at the end of January 2012.



2.9.1 Breakdown of salaries, remuneration and benefits

The detailed breakdown of the salaries, wages, remuneration and benefits are will be depicted in Supporting table 8 – 8b:-

- ❖ Supporting table SA23 – Disclosure of salaries, allowances and benefits
- ❖ Supporting table SA22 – Summary of total salaries, wages, allowances and benefits
- ❖ Supporting table SA24 – Summary of personnel numbers

2.10 Monthly targets for revenue, expenditure and cash flow

The monthly cash flows will be reflected in the Supporting table SA27 and SA30:-

- ❖ Supporting table SA30 – Monthly Cash Flows
- ❖ Supporting table SA27- Monthly revenue and expenditure.

2.11 Annual budget and service delivery and budget implementation plans-internal departments

- The service delivery budget implementation plan per department will be furnished on the submission of final budget.

2.12 Annual budget and service delivery agreements-municipal entities and other external mechanisms.

- The Makhado Municipality does not have the municipal entities.

2.13 Contracts having future budgetary implications

- Refer to Annexure 'A' Table SA33

2.14 Capital expenditure details

- Refer to Annexure 'A' Table A5

2.15 Legislation compliance status

2.15.1Municipal Finance Management Act

On July 1, 2004 the Municipal Finance Management Act officially came into effect. This legislation provides for significant changes in the way municipalities



in South Africa manage their financial affairs. The legislation not only deals with accounting and finance issues but also deals with general management issues.

While the official date for the legislation was July 1, 2004 the implementation will be phased in up to a maximum of five years. This is due to the fact that the changes required are significant and far-reaching. Councils require time to make the necessary changes and ensure that employees understand and are trained in the required changes.

In terms of implementation, Makhado Municipality has been classified as a medium capacity municipality. The Municipality has made significant progress in the implementation of the MFMA as can be read from the table below.

IMPLEMENTATION OF MUNICIPAL FINANCE MANAGEMENT ACT MONITORING TOOL

CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
4	15	Budgets: Appropriation of funds		Complies
	16	Tabling and approval of budgets before start of financial year	Immediately, with 2012/13 budget to be tabled in Council no later than 31 March 2012 and annually thereafter before 31 March	Complies
	17(1)(c), (d)(ii) and (3)(b)	Contents of budgets and supporting documents	Applies to 2012/13 budget	Complies
	18	Funding of expenditure	With effect from 2012/13 budget year	Complies
	19	Capital Projects	Applies to 2012/13 budget	Complies
	21	Budget preparation process	Budget preparation plan to reach Council before 30 September and annually thereafter	Complies
	22	Publication of annual budget	Immediately after 31 March 2012	Complies
	23	Consultations on budget (Community participation)	Applies to 2012/13 budget	Complies



CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
	24(2)(c)(iii)	Approval and submission of budgets	Applies to 2012/13 budget	Complies
	25	Failure to approve budgets	Immediate	Complies
	26, 27	Consequences of failure	Immediate	Complies
	28	Municipal Adjustment budgets	With effect from 01 July 2012	Complies
	29,30,31,32	Unforeseen, unavoidable, unauthorized, irregular expenditure	Immediate	Complies
	33	Contracts with future budget implications	Immediate	Complies
5	35	Promotion of co-operative governance	Immediate	Complies
	37	Promotion of co-operative governance	Applies to 2012/13 Budget	Complies
	38,39,40	Stopping of funds to municipalities	With effect from 1 July 2012	Complies
6	45	Short-term debt repayment	Immediate with S45(4)(a)	Complies
	46,47,48,49, 50	Long-debt, debt security, disclosure and guarantees	Immediate	Complies
7	52	Responsibilities of Mayors	Immediate	Complies
	53 1(c)(ii)&(iii), & (3)	Service delivery and budget implementation plans		Complies
	54(1)(b), (c), (d)(i), (3)			Complies
8	60,61	MM to be accounting officer, Fiduciary responsibilities	Immediate	Complies
	62(1)(c) & (f)(i)(ii)(iii)	Internal audit		Complies
	62(1)(f)(iv)	Full and proper records and supply chain management		Complies
	63(2)	Asset and liability management		Complies
	63(1)	Asset & liability management		Complies
	64,65		Immediate with reports setting out totals for category {i.e. (a) to (g)} by 31 January	Complies



CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
	66	Expenditure on staff benefits	(for July to December) and 31 July (for January to June) each year	Complies
	67,68	Funds transferred to organizations & budget preparation	Immediate	Complies
	69(1)&(2)	Monitoring of revenue & expenditure Submission of draft SDBIP	Immediate	Complies
	69(3)	Shortfalls & overspendings		Complies
	70	Monthly budget statements		Complies
	71(1)(a)(b)(g)(iii), (2)(3)&(4)	Expenditure by vote		Complies
	71(1)(c)&(d)&(g)(iii)	Monthly budget statements DORA		Complies
	71(1)(e), (f), (5,6,7)	Midyear budget & performance assessment		Complies
	72(1)(a)(i)(iii)(iv) (1)(b), (2)&(3)	SDBIP		Complies
	72 (1)(A)(1)(ii)	Reports on failure to implement Budget		Complies
	73	General reporting obligation		Complies
	74	Information for web-sites		Complies
	75			Complies
9	80	Budget & Treasury Office establishment	Immediate	Complies
	82	Delegations by Director Finance		Complies
10	84,85,86,	Bank accounts	Immediate.	Complies
11	110,113,114, 115,116,117, 118	Supply chain management Supply chain management policy		Complies
	111	Policy to comply with		Complies



CHAP TER	SECTION	CONTENTS	LEGISLATIVE COMPLIANCE DATE	STATUS OF MUNICIPALITY
	112	framework		
	119	Competency levels		Complies
	120	PPP-conditions and process		Complies
12	121	Reports & Audits –annually		Complies
	122(1)	Financial statements	Immediate	Complies
	122(3)	Statements – GRAP compliance		Complies
	123	Disclosures on allocations		Complies
	124,125	Disclosures on Councillors	Immediate	Complies
	126,127,128,129,130,131,132,133,134	Reports and audit, submissions, consequences, annual reports		Complies
13	135 to 162			
14	165	Internal audit unit		Complies
	166	Audit committees	Immediate	Complies
	167,168,169,170	Councilors remuneration, treasury regulations, consultative processes		Complies
15	171 to 175	Financial misconduct	Immediate	Complies

Abbreviations:

MM - Municipal Manager or person acting in that capacity
MF - Manager Finance or person acting in that capacity
MCS - Manager Corporate Services or person acting in that capacity
SDBIP – Service Delivery and Budget Implementation Plan
MSA – Municipal Systems Act
PPP – Public Private Partnership

2.16 Annual budget of municipal entities attached to the municipalities annual budget

- The Makhado Municipality does not have the municipal entities.

2.17 Municipal Manager's Quality Certification

Refer to the Municipal Manager's Quality Certification attached.